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ALGONQUIN MERCANTILE CORPORATION

21st Annual Report

For the Fiscal Year Ended

June 30, 1977

*FORMERLY ALGONQUIN BUILDING CREDITS LTD
NAME CHANGED JAN. 1977*



ALGONQUIN MERCANTILE CORPORATION

HEAD OFFICE

Suite 200, 931 Yonge Street, Toronto, Ontario M4W 2H7

MANUFACTURING DIVISIONS

R.J. Jalonen, General Manager Coupco Division
570 Coronation Drive, Scarborough, Ontario
R.G. Taylor, General Manager AMC Appliances Limited
100 Penn Drive, Weston, Ontario

PRINCIPAL OPERATING SUBSIDIARIES

Hardee Farms International Ltd.
Suite 200, 931 Yonge Street, Toronto, Ontario

The Baxter Canning Co. Limited
7 Stanley Street, Bloomfield, Ontario

Federal Diversiplex Limited
Suite 200, 931 Yonge Street, Toronto, Ontario

Creston Valley Foods Ltd.
P.O. Box 5000, Creston, British Columbia

Bestpac Limited
P.O. Box 1030, Bradford, Ontario



ALGONQUIN MERCANTILE CORPORATION

BOARD OF DIRECTORS

D.S. Anderson	Willowdale, Ontario
C.H. Franklin	Willowdale, Ontario
*R.M. Franklin	Toronto, Ontario
F.D. Lace	Toronto, Ontario
*C.C. Laking	Willowdale, Ontario
*W.B. Macdonald	Toronto, Ontario
*E.R.S. McLaughlin	Oshawa, Ontario
*D.E. McQuigge	Toronto, Ontario
A.W. Walker	Willowdale, Ontario
Audit Committee Chairman (**) and Members (*)	

OFFICERS

C.H. Franklin	Chairman of the Board and Chief Executive Officer
A.W. Walker	President
R.M. Franklin	Executive Vice-President
W.R. Abbott	Secretary
L.P. Katz	Controller
D.H. Kirstine	Treasurer

HEAD OFFICE

931 Yonge Street Toronto, Ontario M4W 2H7

AUDITORS

Coopers & Lybrand Toronto, Ontario

SOLICITORS

Fasken & Calvin Toronto, Ontario

TRANSFER AGENTS & REGISTRAR

The Royal Trust Company Toronto, Ontario

ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held in the Quebec Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario at 11:15 o'clock in the forenoon on Tuesday November 15, 1977.

BANKERS

The Royal Bank of Canada
Canadian Imperial Bank of Commerce

STOCK LISTING

Toronto Stock Exchange



ALGONQUIN MERCANTILE CORPORATION

Chairman's Report to Shareholders

Consolidated results for the fiscal year ended June 30, 1977 are herein reported.

Algonquin, on single company basis, was profitable both before and after extraordinary items, but the necessity to consolidate the operations of Hardee Farms International Ltd. created a loss before extraordinary items of \$125,073 or 18¢ per share. Net earnings for the year were \$544,182 or 79¢ per share.

As reported at mid-term, 89.698 acres, or slightly less than half, of the Rivalda Farms property was sold for the sum of \$1,480,017.

Investment in Consumers Glass Company Limited has been increased to 237,123 shares or 9.4% of that company. Investment in J. Harris & Sons Limited remains unchanged at 125,000 or 3.8%.

The sales of Coupco and ETM (the latter now known as AMC Appliances) continue to grow and both operations are functioning well.

The combined sales of Hardee and Federal showed a good annual growth but due to a combination of factors beyond their control, the end result was a net loss.

The option held to purchase 40% of the issued capital of Husky Injection Molding Systems Ltd., which originally was to expire on July 21, 1977, has been extended to November 21, 1977.

The corporation has repurchased a total of 72,452 of its 5¢ preferred shares and 15,974 of its common shares. The Business Corporations Act of Ontario requires cancellation of repurchased preferred shares but the common shares are held for treasury purposes. As at this date, there are outstanding 202,708 5¢ issued preferred shares and 444,238 issued common shares.

At the directors' meeting immediately following the last Annual Meeting, Mr. Arthur Walker was appointed President of Algonquin and his remarks on operations follow.

As previously announced, the company name was changed to Algonquin Mercantile Corporation in January 1977, this name considered to be more representative of the company's current activities and direction.

In closing, your directors thank all shareholders, personnel, customers, suppliers and friends who have so ably assisted and supported the continuing growth of the corporation.

On behalf of the Board,

C.H. Franklin, *Chairman*

September 30, 1977

President's Message

Parent company operations, for the year ended June 30, 1977 produced satisfactory results by comparison with those of the preceding year. Coupco Division operating profits were favourable, showing sufficient improvement to offset preliminary losses sustained in reorganization of the Appliance Division, the results of which have been consolidated from March 1, 1977, when full ownership of AMC Appliances Limited was acquired by Algonquin.

Operations of your Company's 57% controlled subsidiary Hardee Farms International Ltd. were particularly disappointing and resulted in a loss of \$402,754 before extraordinary income of \$26,048 in the current fiscal year. This compares with earnings of \$394,172 before extraordinary income of \$277,160 in the previous fiscal year. Consolidation of Algonquin's share of Hardee's \$796,926 operating reversal, accounts almost entirely for the reversal of \$468,099 in Algonquin's 1977 operating results before extraordinary income.

Parent Company Operations:

The Coupco Division experienced improved volume and profitability during the year. Expanded distribution and increased product lines should result in continued growth for Algonquin's pipe coupling business. During the year the remainder of the outstanding shares of Straub Industries Inc. were acquired. Efforts continue to search out a viable market for the Straub line of couplings.

Following acquisition of full control of ETM (1976) Limited the name of that company was changed to AMC Appliances Limited. This operation's results were not satisfactory. Many problems were inherited from the predecessor company and with their resolution a turnaround is anticipated. Improvement is expected to come from changes made in the past six months to increase production efficiency, redesign products, reduce overhead, strengthen customer relations and the addition of new product lines. Subsequent to the year end the stamping operations of this division were sold. This will result in better production flow, will reduce overhead by eliminating the need for outside storage and will provide the benefit of fixed cost for stamped components.

Hardee Farms International Ltd. Operations:

Major adversities were experienced by both the frozen and canned vegetable segments of the business throughout the past year which covered a difficult period for the entire primary agricultural processing industry in North America. Soft retail markets, excess inventory positions, rising costs, and increased competition from imported products combined to produce unsatisfactory returns for Hardee and other primary processors.

Operating results of the Frozen Vegetable Division were particularly penalized by extremely unfavourable growing conditions in southwestern Ontario. Several weeks of very dry weather after an abnormally cool planting season were

followed by heavy rains through most of the harvest. Reduced crop yields, excessive harvesting expenses, and high plant processing costs were the result. This unusual combination of agricultural conditions was limited to Hardee's particular growing areas in southwestern Ontario whereas in most other areas of North America production yields were substantially above expectations so that frozen vegetable markets remained weak.

The Baxter Canning Division was particularly affected by massive imports into Canada of canned whole tomatoes from several low wage countries. After two years of representations to Ottawa an import surtax was imposed by the federal government in the latter part of the year and although this was too late to be of benefit for the fiscal year 1977, this import tax should be of assistance for the future. The Department of National Revenue through its Anti-Dumping Directorate has also recently commenced investigations into canned whole tomato importations from Taiwan, Spain, Italy, Israel and Bulgaria to establish whether charges of dumping should be laid. The outcome from these developments could significantly affect Baxter's future operations.

It is increasingly evident that processors must be given compensating federal import tariff protection for controlled commodities sold to Canadian food processors at prices established under regulations of various farm products marketing boards. Alternatively the pricing policies of these agencies must be more responsive to competitive conditions on an international scale if a viable primary Canadian food processing industry is to continue.

In spite of the poor overall earnings performance, fiscal 1976-77 was a progressive year in several important ways. The major expansion and modernization programs in progress over the past two years at Baxter and Lambeth/Ingersoll were completed and should enhance future results. Federal Diversiplex Limited's purchase of 400 acres of potato land near Shelburne, Ontario together with a large potato storage building on that property has further extended Hardee's broad agricultural base. Substantial capital equipment improvements were also completed at the Bradford Division. Now that these projects have been finalized current capital outlays on plant and equipment will be significantly reduced and the Company should begin to realize the benefits from completed production cost improvement installations.

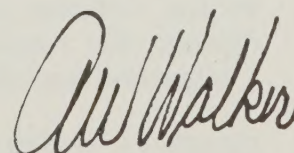
Operations of the Freeze-Dry Foods Division were particularly buoyant during the past fiscal year and growth in both domestic and export demand for Hardee's freeze-dried products is expected to continue. Several high quality instant dinners were added this year to the successful recreation food line for which broader market penetration is being achieved.

Sales volume and operating results of the HONEYDEW frozen concentrate division also increased during the past

year. A single strength orange HONEYDEW drink in 10 ounce pull-tab cans is currently being introduced to supermarket shelves and consumer acceptance has been sufficiently enthusiastic that the flavour range will be extended next year. A newly formulated honey-flavoured hot chocolate beverage for sale from specially adapted high convenience dispensers will be made available to fast food counters this fall. A unique hot spiced apple drink was test-marketed with encouraging response during the past year and will shortly be made available to the food service trade.

The Kirkwood Kitchens division is now in process of introducing retail frozen quiche products developed during the past year to complement the similar line established over the past several months with the catering and food service trades. Special attention has been given to provision of microwave convenience for these products and there has been strong response to this feature.

Perhaps the most significant development holding major future promise for the Company was Federal's acquisition of a controlling 65% interest in Creston Valley Foods Ltd. The technology and production capability acquired through this investment together with technology internally developed over the past three years under Federal's former Redi-Brand program gives this Company the potential to take an early lead in the introduction of retort pouch processed potatoes and other vegetables to North American markets. The retort pouch process produces shelf stable high quality foods that require no refrigeration or special handling during storage or transportation. This process is regarded as having practically unlimited potential for the food processing industry. A major technological breakthrough developed shortly after Federal's acquisition of Creston Valley when two large United States container manufacturing companies announced United States Food and Drug Administration and Department of Agriculture approvals of a new pouch material which overcomes certain obstacles presented by previous laminates. Several major U.S. companies have since announced advancement of retort pouch programs which had been delayed pending resolution of earlier difficulties. Creston Valley intends to vigorously pursue the opportunities now opened by this breakthrough and Creston's advantage in facility and technology gives a substantial headstart over others in this exciting new method of food processing.



September 30, 1977

A.W. Walker, President



CONSOLIDATED BALANCE SHEET

AS AT JUNE 30, 1977

ASSETS

	1977 \$	1976 \$
CURRENT ASSETS		
Accounts receivable	3,355,824	2,880,252
Inventories	8,631,000	7,717,631
Prepaid crop and other expenses	1,257,072	1,065,210
Current portion of mortgages and debenture receivable	111,030	182,732
	<u>13,354,926</u>	<u>11,845,825</u>
INVESTMENTS (notes 3 and 8)	4,506,563	3,472,919
FIXED ASSETS (note 4)	11,838,018	10,481,258
OTHER LAND (note 5)	862,574	1,582,476
TRADEMARKS AND GOODWILL	507,186	452,809
PROCESS DEVELOPMENT COSTS (note 6)	159,677	116,548
EXCESS OF PURCHASE PRICE OF SHARES OF SUBSIDIARIES OVER BOOK VALUE THEREOF ...	662,305	799,490
SIGNED ON BEHALF OF THE BOARD		
C.H. Franklin, <i>Director</i>		
D.E. McQuigge, <i>Director</i>	<u>31,891,249</u>	<u>28,751,325</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Algonquin Mercantile Corporation as at June 30, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

LIABILITIES

	1977 \$	1976 \$
CURRENT LIABILITIES		
Bank advances (note 7)	8,484,949	5,066,424
Accounts payable and accrued liabilities	3,005,909	2,637,901
Income taxes payable	135,922	283,842
Current portion of long-term debt.	990,758	1,475,209
	<u>12,617,538</u>	<u>9,463,376</u>
LONG-TERM DEBT (note 8).	6,015,040	5,291,302
DEFERRED INCOME TAXES	285,000	553,566
MINORITY INTEREST (note 9).	3,706,095	4,298,518
	<u>22,623,673</u>	<u>19,606,762</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 10)

Authorized —		
927,914 5¢ Class A, non-voting, non-cumulative participating preference shares without par value		
500,000 common shares without par value		
Issued and fully paid —		
203,074 (1976 — 257,802) Class A preference shares } 446,288 (1976 — 458,153) common shares }	3,195,640	3,546,632
RETAINED EARNINGS	6,071,936	5,597,931
	<u>9,267,576</u>	<u>9,144,563</u>
	<u>31,891,249</u>	<u>28,751,325</u>

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceeding year.

Toronto, Ontario
August 5, 1977

COOPERS & LYBRAND
Chartered Accountants



CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED JUNE 30, 1977

	1977 \$	1976 \$
SALES		
Processed and fresh vegetables.	26,082,895	23,347,988
Other.	<u>6,587,224</u>	<u>4,975,899</u>
	<u>32,670,119</u>	<u>28,323,887</u>
COST OF SALES AND OTHER EXPENSES	31,198,309	25,648,707
DEPRECIATION	<u>716,729</u>	<u>606,325</u>
	<u>31,915,038</u>	<u>26,255,032</u>
EARNINGS FROM OPERATIONS		
BEFORE INTEREST	755,081	2,068,855
INTEREST (note 8)	<u>1,415,790</u>	<u>1,089,999</u>
(LOSS) EARNINGS FROM OPERATIONS BEFORE PROVISION FOR INCOME TAXES	<u>(660,709)</u>	<u>978,856</u>
PROVISION FOR INCOME TAXES		
Current	30,217	315,000
Deferred	<u>(267,172)</u>	<u>100,000</u>
	<u>(236,955)</u>	<u>415,000</u>
	<u>(423,754)</u>	<u>563,856</u>
MINORITY INTEREST IN (LOSS) EARNINGS OF SUBSIDIARIES	<u>(298,681)</u>	<u>220,830</u>
(LOSS) EARNINGS BEFORE EXTRAORDINARY ITEMS	<u>(125,073)</u>	<u>343,026</u>
EXTRAORDINARY ITEMS (note 11)	<u>669,255</u>	<u>820,819</u>
NET EARNINGS FOR THE YEAR	<u>544,182</u>	<u>1,163,845</u>
PER COMMON SHARE		
Earnings for the year before extraordinary items	<u>(18¢)</u>	<u>47¢</u>
Net earnings for the year	<u>79¢</u>	<u>\$1.60</u>

Earnings per common share on a fully diluted basis are not significantly different from those reported above. The earnings per share have been calculated for 1977 on 689,485 shares and for 1976 on 726,398 shares. The Class A preference shares have been treated as common shares for purposes of the calculation.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30, 1977

	1977 \$	1976 \$
RETAINED EARNINGS — BEGINNING OF YEAR	5,597,931	4,470,140
Net earnings for the year	<u>544,182</u>	<u>1,163,845</u>
	6,142,113	5,633,985
Dividends	<u>70,177</u>	<u>36,054</u>
RETAINED EARNINGS — END OF YEAR	<u>6,071,936</u>	<u>5,597,931</u>

**CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION**
FOR THE YEAR ENDED JUNE 30, 1977

	1977 \$	1976 \$
SOURCE OF FUNDS		
(Loss) earnings for the year before extraordinary items	(125,073)	343,026
Items not requiring an outlay of funds —		
Depreciation	718,884	606,325
Deferred income taxes	(268,566)	100,000
	<u>325,245</u>	<u>1,049,351</u>
Reduction of income taxes arising from prior years	14,168	150,919
Proceeds on disposal of fixed assets and other land	1,843,449	41,798
Proceeds on disposal of investments	320,824	2,048,583
Long-term debt incurred	2,572,500	3,251,222
Deferred income taxes	—	297,066
	<u>5,076,186</u>	<u>6,838,939</u>
USE OF FUNDS		
Purchase of fixed assets	2,255,973	1,945,307
Purchase of investments	1,135,454	2,085,651
Retirement of long-term debt	1,918,672	1,626,612
Purchase of Algonquin Mercantile Corporation shares —		
Common	69,657	11,303
Preference	281,335	74,972
Purchase of minority interest shares of subsidiaries	137,342	519,207
Minority interest in loss (earnings) of subsidiaries	291,632	(395,368)
Trademarks and process development costs	61,306	77,834
Dividends paid by a subsidiary company	61,459	31,389
Dividends	70,177	36,054
Mortgage receivable on disposal of fixed assets	390,000	—
Non-current assets acquired on purchase of shares of AMC Appliances Limited	48,240	—
	<u>6,721,247</u>	<u>6,012,961</u>
(DECREASE) INCREASE IN WORKING CAPITAL	(1,645,061)	825,978
WORKING CAPITAL — BEGINNING OF YEAR	<u>2,382,449</u>	<u>1,556,471</u>
WORKING CAPITAL — END OF YEAR	<u>737,388</u>	<u>2,382,449</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 1977

1. SUMMARY OF ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies except Bestpac Limited (see note 3) at their respective fiscal year-ends with appropriate provision for minority interests. The results of all subsidiaries are included from the dates of acquisition and are accounted for as purchases.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Prepaid crop expenses

Crop expenses attributable to the current farm program are included in prepaid crop expenses.

(d) Fixed assets

Fixed assets are depreciated principally on a diminishing balance basis over their estimated useful lives as follows:

Buildings — 20 to 40 years

Equipment — 7 to 17 years

(e) Trademarks

This asset is carried at cost, since it is not anticipated that its inherent worth will decline below cost.

(f) Excess of purchase price of shares

Acquisition costs of each purchased subsidiary are allocated to that subsidiary's identifiable net assets on the basis of estimated fair values at the date of acquisition with any excess being carried as excess of purchase price of shares of subsidiaries over book value thereof. All such excesses of purchase price arose prior to April, 1974 and are not being amortized so long as there is no evidence of impairment in value.

(g) Income taxes

The companies follow the tax allocation method of providing for income taxes. Under this method timing differences between reported and taxable income result in adjustments to deferred income taxes.

2. ACQUISITIONS OF MINORITY INTEREST OF SUBSIDIARIES

During the year the company increased its investment in Hardee Farms International Ltd. to 56.77% of the outstanding common shares of that company, and Hardee increased its investment of common shares in Federal Diversiplex Limited to 86.07% and in The Baxter Canning Co. Limited to 71.43%.

3. INVESTMENTS

	1977 \$	1976 \$
20,000 common shares (1976 — 30,000 common shares) of Alliance Building Corporation Limited at cost (market value \$72,300; 1976 — \$111,000)	100,985	151,475
221,983 common shares (1976 — 187,573 common shares) of Consumers Glass Company Limited, at cost (market value \$2,885,780; 1976 — \$2,766,702)	2,493,118	1,986,162
125,000 common shares (1976 — 125,000 common shares) of J. Harris & Sons Limited at cost (market value \$443,750; 1976 — \$556,250) ..	540,490	540,490
505,000 common shares (1976 — 500,000 common shares) of the Tintina Silver Mines Limited at cost (market value \$111,100; 1976 — \$460,000)	251,281	250,000

15,000 common shares (1976 — 6,000 common shares) of Canadian Manoir Industries Limited at cost (market value \$63,750; 1976 — \$30,750)	1977 \$ 73,343	1976 \$ 32,917
Sundry investments in other Canadian companies at cost (market value \$68,790; 1976 — \$15,000)	69,318	16,497
	<u>3,528,535</u>	<u>2,977,541</u>
Sundry mortgages and debenture maturing over terms of up to ten years with rates from 8% to 13%	727,058	513,959
Less: Current portion	111,030	182,732
	<u>616,028</u>	<u>331,227</u>
	<u>4,144,563</u>	<u>3,308,768</u>
Investment in and advances to Bestpac Limited	112,000	—
10% unsecured note due August 1, 1982 — Husky Injection Molding Systems Ltd.	250,000	—
Investment in and advances to AMC Appliances Limited (formerly ETM (1976) Limited) representing 50% ownership (remaining 50% purchased in 1977)	—	164,151
	<u>362,000</u>	<u>164,151</u>
	<u>4,506,563</u>	<u>3,472,919</u>

Mortgages and debenture receivable include \$171,529 in U.S. funds.

During the year a subsidiary acquired, in several stages, an 80% interest in Bestpac Limited, the last of which was made on March 18, 1977. Since its incorporation some eighteen months earlier, Bestpac Limited has been developing a process for the manufacture of a product with several potential uses, the economic success of which will be evaluated during the current year. Pending such evaluation, the subsidiary's investment in Bestpac Limited is being carried at cost. Subsequent to the subsidiary's fiscal year-end additional advances of \$35,000 have been made to Bestpac Limited.

The company has advanced the sum of \$250,000 to Husky Injection Molding Systems Ltd. In consideration of this advance, the company has been granted an irrevocable option to acquire 40% of the common shares for an aggregate consideration of \$1,000,000 on or before November 21, 1977.

4. FIXED ASSETS

Fixed assets are as follows:	1977 \$	1976 \$
Buildings and equipment — at cost	15,676,384	13,541,995
Accumulated depreciation	6,541,888	5,882,119
	<u>9,134,496</u>	<u>7,659,876</u>
Land — at cost	2,103,522	1,821,382
Land valued on basis of lease option outstanding	—	400,000
Other lands (approximately 4,600 acres) at values assigned by the directors in 1971	600,000	600,000
	<u>2,703,522</u>	<u>2,821,382</u>
	<u>11,838,018</u>	<u>10,481,258</u>

Two subsidiaries of the company have received forgivable loans from government agencies. As at June 30, 1977 \$147,500 remained to be forgiven in 1978. Based upon the expectation that the operations for which the loans were obtained will continue as required, the amount of the loans have been applied as a reduction in the cost of the related plant and equipment.

5. OTHER LAND

Other land consists of:	1977	1976
	\$	\$
Rivalda Farms — at cost, plus carrying charges	746,873	1,466,775
Other	115,701	115,701
	<u>862,574</u>	<u>1,582,476</u>

During the year the Province of Ontario purchased approximately one half of the Rivalda Farms property.

The residual acreage is located within a parkway belt around Metropolitan Toronto established by the Province of Ontario, which restricts the use of the land. The directors are satisfied as to the carried values of the land.

6. PROCESS DEVELOPMENT COSTS

Process development costs represent the expenditures, net of government assistance, on research in the processing and marketing of potatoes and vegetables in retortable pouches, marketed to date under the Redi-Brand name. The technology developed as a result of these costs is part of the technology which together with cash of \$250,000 was invested by a subsidiary subsequent to its fiscal year-end, to acquire 65% of the issued capital stock of Creston Valley Foods Ltd.

7. BANK ADVANCES

Bank advances are secured by a pledge of shares in subsidiaries, assignment of book debts and inventories and a \$3,500,000 debenture on the assets of a subsidiary company.

8. LONG-TERM DEBT

	Current portion \$	Long-term portion \$	Total 1977 \$	Total 1976 \$
Bank loans at interest ranging from prime plus 1-1/2% to prime plus 2%, due between October 20, 1979 and June 1, 1985	639,004	3,784,486	4,423,490	3,281,327
6% convertible notes due December 31, 1976 not yet presented for retirement	11,325	—	11,325	672,555
Sundry mortgages and notes at interest between 6% and 13%, due between September 23, 1978 and September 15, 1994	340,429	1,289,554	1,629,983	1,312,629
Bank loan secured by holdings of long- term investments at interest of prime plus 1%	—	941,000	941,000	1,500,000
	<u>990,758</u>	<u>6,015,040</u>	<u>7,005,798</u>	<u>6,766,511</u>

Interest on long-term debt for the current year amounted to \$633,261.

9. MINORITY INTEREST

Minority interest is as follows:	1977	1976
	\$	\$
Hardee Farms International Ltd.	3,234,423	3,636,781
Federal Diversiplex Limited	462,309	499,326
The Baxter Canning Co. Limited	9,363	162,411
	<u>3,706,095</u>	<u>4,298,518</u>

10. CAPITAL STOCK

During the year the company acquired on the open market 54,729 Class A preference shares for \$281,335. These shares have been cancelled from the authorized capital stock of the company. The company also acquired for treasury purposes, 11,865 common shares for \$69,657.

Dividend payments, if any, in any fiscal year on the Class A non-cumulative preference shares and the common shares are to be made in the following order:

- (a) a 5¢ dividend is to be paid on the preference shares before any dividend is paid on the common shares,
- (b) then a 5¢ dividend is to be paid on the common shares, and
- (c) then the same dividend is to be paid on the common and preference shares.

The Class A non-voting preference shares rank equally with the common shares in all other respects.

11. EXTRAORDINARY ITEMS

	1977	1976
	\$	\$
Reduction of income taxes arising from prior years	21,217	323,000
Minority interest thereon	<u>7,049</u>	<u>172,081</u>
	14,168	150,919
Gain on sale of land, net of income taxes of \$95,000	655,087	—
Gain on sale of investments, net of income taxes of \$259,000	<u>—</u>	<u>669,900</u>
	<u>669,255</u>	<u>820,819</u>

12. INCOME TAXES

The company's subsidiaries may reduce future income subject to taxes by approximately \$1,140,000 through the deduction, in diminishing amounts over several years, of capital cost allowances and other write-offs the equivalent of which have already been recorded in the accounts but not yet claimed for tax purposes.

In addition, the company has certain subsidiaries with losses available for tax purposes of approximately \$995,000, the tax effect of which has not been reflected in the accounts.

13. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate direct remuneration paid by the company and its consolidated subsidiaries to the directors and senior officers (as defined in The Securities Act of Ontario) of the company during its fiscal year ended June 30, 1977 was \$292,948.

14. NAME CHANGE

During the year the company changed its name by Articles of Amendment from Algonquin Building Credits Limited to Algonquin Mercantile Corporation.

15. ANTI-INFLATION ACT

The company is subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

ALGONQUIN MERCANTILE CORPORATION

FIVE YEAR SUMMARY

	1977 \$	1976 \$	1975 \$	1974 * \$	1973 \$
RESULTS FOR THE YEAR					
Sales	<u>32,670,119</u>	<u>28,323,887</u>	<u>23,186,689</u>	<u>22,400,557</u>	<u>23,522,244</u>
Earnings before the following	1,471,810	2,675,180	2,817,021	2,536,185	2,031,078
Depreciation	716,729	606,325	504,593	436,738	423,836
Interest	1,415,790	1,089,999	731,402	577,684	440,988
Income taxes	(236,955)	415,000	681,800	674,000	481,000
Minority interest	<u>(298,681)</u>	<u>220,830</u>	<u>360,112</u>	<u>399,424</u>	<u>253,550</u>
Earnings (loss) before extraordinary items	(125,073)	343,026	539,114	448,339	431,704
Extraordinary items	<u>669,255</u>	<u>820,819</u>	<u>112,308</u>	<u>445,246</u>	<u>1,051,731</u>
Net earnings	<u>544,182</u>	<u>1,163,845</u>	<u>651,422</u>	<u>893,585</u>	<u>1,483,435</u>
YEAR-END POSITION					
Total assets	31,891,249	28,751,325	25,014,510	20,703,272	16,645,885
Total liabilities	<u>22,623,673</u>	<u>19,606,762</u>	<u>16,911,463</u>	<u>13,239,163</u>	<u>10,075,361</u>
Shareholders' equity	<u>9,267,576</u>	<u>9,144,563</u>	<u>8,103,047</u>	<u>7,464,109</u>	<u>6,570,524</u>
PER SHARE OF CAPITAL STOCK					
Earnings (loss) before extraordinary items	(18¢)	47¢	73¢	61¢	59¢
Net earnings	79¢	\$1.60	89¢	\$1.22	\$2.05
Dividends	10¢	5¢	—	—	—
Equity	\$14.27	\$12.77	\$11.07	\$10.15	\$8.93
Total shares outstanding	649,362	715,956	732,239	735,372	735,372

* Note (1) Because of a change in fiscal year-end, 1974 figures include audited six month results of Algonquin Mercantile Corporation itself, and audited twelve month results of Hardee Farms International Ltd.

